

The Bank of England is wrong to keep selling bonds at big losses

The Bank of England decided this week to get rid of £100bn of bonds over the next year, £20bn more than last. I agree they should not buy more bonds to replace the ones that mature, like the ECB. I strongly disagree with their aggressive policy of selling bonds at big losses which would lose us less money if they held them to maturity. They have notched up £24 bn of losses, all paid for by the Treasury, this year since April. They have provided no good reason why they do this.

Maybe they want to qualify as one of the worst bond managers in the world. They certainly paid sky high prices for the bonds when rates were near zero. They then hiked rates and sold bonds to force the prices down so they could make colossal losses. They defend the rate rises on the good grounds they needed to do that for monetary policy purposes, as their bond buying and low rates had proved very inflationary. They tell us selling the bonds has little impact on anything, so why do it?

It is difficult to believe what they say. They say buying the bonds at ultra high prices was essential to buttress the economy and help output, but apparently selling them does not do the opposite! Buying stimulates, selling does nothing!

They say their sales, large and low priced as they are, does not depress the market. Of course it does. They point out the prices do not particularly dip on the days of the sales. That is because the sales have been well heralded in advance and are carried out to a stated timetable, so they are in the price. Last autumn when they first announced a big £80 bn bond reduction programme it was followed by bond meltdown, exacerbated by the LDI collapse it helped trigger. The Bank had to reverse policy and buy bonds again to stabilise the market. This showed Bank buying and selling has a big impact as they are the dominant presence in this market.

The public finances ex Bank of England are badly damaged by the extent of the losses, which the needless selling makes worse. As the Bank does not think the sales make any difference, why do them when their balance sheet will come down as the bonds mature? More likely these sales have raised longer term interest rates, have weakened bond prices further and very visibly have worsened the public spending and borrowing figures ex Bank of England. Why do other MPs ignore £24 bn of losses so far this year with so many more to come?